

Internal Revenue Service
memorandum

CC:INTL-1025-95
Br1:WEWilliams

date: DEC 22 1995

to: Assistant Commissioner (International)
Attn: Ted David, Manager, Group 1116
Examination Branch

from: Chief, Branch No. 1
Associate Chief Counsel (International) CC:INTL:1

subject: Potential project involving pilots flying for [REDACTED]

THIS DOCUMENT IS SUBJECT TO THE ATTORNEY-CLIENT PRIVILEGE
~~AND SHOULD NOT BE DISCLOSED TO ANYONE OUTSIDE THE IRS,~~
~~INCLUDING THE TAXPAYERS INVOLVED. ITS USE WITHIN THE IRS~~
SHOULD BE LIMITED TO THOSE WITH A NEED TO REVIEW THE
DOCUMENT FOR USE IN THEIR OWN CASES.

This responds to your request for our views on issues
concerning examinations of individual income tax returns filed
by pilots employed by [REDACTED]. Your questions are
whether the IRS may rely solely on payroll records provided by
an unidentified informant or whether additional evidence of
unreported income needs to be developed. You also ask whether
the Service should consider issuing administrative summonses.

You have identified a number of pilots who are U.S.
citizens. Each pilot reported gross compensation from [REDACTED]
[REDACTED] on his [REDACTED] individual income tax return equal to or
only slightly exceeding the earned income exclusion under
I.R.C. § 911 of \$70,000, plus deductions; and each of these
pilot reported almost no taxable income and little if any tax
liability.^{1/}

An informant, who refuses to identify himself, has
provided you with copies of [REDACTED] payroll records for
[REDACTED] pilots for three months in [REDACTED]. The payroll
records indicate that the pilots were each paid a base monthly
salary, in some cases \$[REDACTED], plus substantial amounts for
overtime. If the amounts reflected on these payroll records
are representative of the wages paid a pilot for each month
during the taxable year, there may be significant omissions
from gross income.

^{1/} One taxpayer [REDACTED] has not filed a [REDACTED]
return, and your examination of this taxpayer involves his [REDACTED]
tax year.

PMTA: 00056

An example is [REDACTED] On the Form 1040 that they filed for [REDACTED] reported \$[REDACTED] in wages, salaries, etc., and \$[REDACTED] in taxable interest income. The informant provided the IRS with [REDACTED] payroll records for [REDACTED] for [REDACTED]

[REDACTED] These records reflect the following:

<u>Month</u>	<u>Base Salary</u>	<u>Overtime</u>	<u>Total Compensation</u>
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[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
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Total compensation for 3 months \$[REDACTED]

You have also learned that a pilot receives an annual bonus from Saudi Airlines equal to one month's base salary.

You recently sent letters to the following [REDACTED] pilots:

<u>Name of pilot</u>	<u>Year</u>	<u>Wages reported on return</u>
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[REDACTED]	[REDACTED]	[REDACTED]
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An information document request was attached to each letter and requested the following information from the taxpayer:

- 1) Complete wage documents - i.e. payroll stubs, W-2's, employment contracts, to support wages reported on your [REDACTED] 1040 tax return. Also supply a list of all employers and income for the same time period.
- 2) Records of your flight itinerary; i.e. the flights and routes you flew during [REDACTED]. Have your log book available and number of hours flown for the year.
[²/]
- 3) All bank records of [REDACTED] to include, but not limited to:
 - a) all business and personal accounts, U.S. and foreign
 - b) ~~all checking, savings and brokerage accounts,~~
U.S. and foreign
 - c) all bank statements for the period [REDACTED]
 - d) all cancelled checks
 - e) all deposit and withdrawal tickets
- 4) Documentation supporting the foreign earned income exclusion of \$70,000 taken on your [REDACTED] 1040 tax return.
- 5) Documentation supporting all Schedule D, capital gain or loss transactions.
- 6) Copies of your [REDACTED] 1040 income tax returns.
- 7) All returns of any other related entities.
- 8) All sources of nontaxable funds - i.e. loans, insurance proceeds.
- 9) The results of any prior I.R.S. examinations, if any.

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²/ You advised us that every hour over 70 hours per month is treated as overtime and compensated at the rate of between \$[REDACTED] and \$[REDACTED] per hour. The rate per hour increases as the number of hours of overtime increases.

[REDACTED]

You advised us that some pilots who have contacted you in response to your letter have told you that they receive no wage statement with their salary checks. You should consider asking the pilots to obtain a copy of the [REDACTED] computer-generated wage printouts for all twelve months of [REDACTED]

If a pilot will not voluntarily produce records, you should consider issuing the pilot a summons under I.R.C. § 7602. Pursuant to the administrative summons authority, under section 7602(a), the IRS may

(2) ... summon the person liable for tax ... to appear before the Secretary at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry; and

(3) To take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry.

[REDACTED]

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Whoever, in any matter within the jurisdiction of any department or agency of the U.S. knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to

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contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

[REDACTED]

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[REDACTED]

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If we can be of further assistance in this matter, please call Ed Williams at 874-1490.

GEORGE M. SELLINGER

3/ You spoke with [REDACTED], in the personnel section of the [REDACTED] office in [REDACTED]. When you asked [REDACTED] informally for payroll information, he responded that it would not be possible for the IRS to get payroll information from [REDACTED].
[REDACTED]